

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PLAN OF MERGER OF KENTUCKY ALLTEL, INC. AND ALLTEL KENTUCKY, INC.	) CASE NO. ) 2004-00302
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O R D E R

The Commission's approval of the acquisition of Verizon South, Incorporated by ALLTEL Corporation ("ALLTEL") required that ALLTEL file a proposed plan of merger between ALLTEL Kentucky, Inc. ("ALLTEL Kentucky") and Kentucky ALLTEL, Inc. ("Kentucky ALLTEL") by July 30, 2004.<sup>1</sup> Kentucky ALLTEL, the newly formed entity, and ALLTEL Kentucky, an existing incumbent local exchange carrier, were ordered to file a plan of merger within two years of the close of the transfer, by which time it would be possible to demonstrate gains in efficiencies and lower rates for both affiliates.

The affiliates responded by indicating that the effort, expense, and additional regulatory hurdles necessitated by a merger would not lead to the benefits that the Commission had envisioned at the time of the acquisition. The ALLTEL companies assert, in fact, that there may be additional expenses and regulatory burdens. For example, approval of the Federal Communications Commission ("FCC") would be necessary to address the differences in the regulatory plans of the two affiliates in the interstate jurisdiction. ALLTEL Kentucky is regulated under a rate of return at the

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<sup>1</sup> Case No. 2001-00399, Petition by ALLTEL Corporation to Acquire the Kentucky Assets of Verizon South, Incorporated, Order dated February 13, 2002.

federal level, while Kentucky ALLTEL is regulated as a price cap company at the federal level. In addition, the FCC would have to approve the request of both companies to maintain their current study areas for interstate settlement purposes. ALLTEL Kentucky would have to adopt the intrastate access rates of Kentucky ALLTEL, but the toll rates are averaged throughout the state of Kentucky. Minimal benefits would flow to the customers.

The Commission concurs with the ALLTEL affiliates that the burdens and expenses of merging the two companies at this time outweigh any possible benefit. The Commission concludes that a merger of these two entities is not in the best interest of their Kentucky customers. Administrative burdens and uncertainty of the FCC's treatment of the companies would outweigh any benefits that may accrue to Kentucky customers at this time. The Commission also acknowledges that the ALLTEL affiliates both receive corporate support which provides efficiencies. A merger of the entities may not produce any additional benefits.

IT IS THEREFORE ORDERED that the ALLTEL affiliates shall not be required to merge their two operations in Kentucky at this time. Thus, this case is dismissed from the Commission's docket.

Done at Frankfort, Kentucky, this 24<sup>th</sup> day of November, 2004.

By the Commission

Commissioner W. Gregory Coker did not participate in the deliberations or decision concerning this case.

ATTEST:

  
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Executive Director